

Message Text

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ORIGIN EB-08

INFO OCT-01 ARA-10 EUR-12 EA-07 ISO-00 TRSE-00 AID-05
CEA-01 CIAE-00 COME-00 FRB-03 INR-07 IO-13 NEA-10
NSAE-00 USIA-06 OPIC-03 SP-02 LAB-04 SIL-01
AGRE-00 OMB-01 SS-15 L-03 XMB-02 /114 R

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-----035842 012259Z /70

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FM SECSTATE WASHDC
TO AMEMBASSY THE HAGUE PRIORITY
AMEMBASSY LONDON
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CARACAS
AMEMBASSY DUBLIN
AMEMBASSY LISBON
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO
AMEMBASSY VIENNA

C O N F I D E N T I A L STATE 179910

E.O. 11652: GDS

TAGS: EFIN, PO

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SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: LONDON 12329 (NOTAL), THE HAGUE 3787 (NOTAL)

1. FOLLOWING IS REPLY TO QUESTIONS RAISED IN REFTELS CONCERNING THE U.S. LOAN AND OTHER FINANCIAL ARRANGEMENTS FOR PORTUGAL.

2. U.S. LOAN - INTEREST RATES. THE U.S. INTENDS TO USE A FIXED INTEREST RATE, TO BE DETERMINED BY THE COST OF TEN-YEAR MONEY TO THE U.S. TREASURY ON THE DATE LOAN IS NEGOTIATED WITH THE GOP. THE RATE IS EXPECTED TO BE ABOUT 7.5 PERCENT. THERE WILL BE NO PROVISION FOR A REVIEW OF THE RATE.

3. U.S. LOAN - REPAYMENT PROVISIONS. THE MATURITY OF THE U.S. LOAN WILL BE 10 YEARS INCLUDING A THREE-YEAR GRACE PERIOD. THE GRACE PERIOD WILL APPLY TO PRINCIPAL ONLY. WE EXPECT THAT INTEREST PAYMENTS WOULD BE DUE SEMI-ANNUALLY, TO BEGIN SIX MONTHS AFTER THE FIRST DISBURSEMENT. REPAYMENTS OF PRINCIPAL WOULD BE MADE IN EQUAL ANNUAL INSTALLMENTS.

4. CONDITIONALITY AND THE IMF. THE FIRST DISBURSEMENT OF THE U.S. LOAN WILL BE CONDITIONED ON INITIATION BY THE PORTUGUESE OF NEGOTIATIONS WITH THE IMF TO OBTAIN ACCESS TO THEIR SECOND CREDIT TRANCHE. THE SECOND DISBURSEMENT WILL BE CONDITIONED ON CONTINUED PORTUGUESE ADHERENCE TO AN ECONOMIC RECOVERY PROGRAM WORKED OUT IN COOPERATION WITH THE IMF. WE EXPECT THAT OUR JUDGMENT OF WHETHER THE PORTUGUESE ARE ADHERING TO SUCH A PROGRAM WILL BE BASED ON AN IMF ASSESSMENT OF PORTUGUESE PERFORMANCE. WE ANTICIPATE THAT THE SECOND DISBURSEMENT WILL BE MADE IN MARCH OR APRIL, DEPENDING ON PORTUGUESE FOREIGN EXCHANGE NEEDS. CONFIDENTIAL

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5. FORM OF LOANS FROM OTHER COUNTRIES. RESPONSES TO OUR QUESTIONNAIRE ARE STILL INCOMPLETE. IN GENERAL, HOWEVER, COUNTRIES INTEND TO PROVIDE LOANS BASED ON GUIDELINES AGREED AT THE MAY 16 AND JUNE 22 MEETINGS, I.E., LOANS WHICH ARE MEDIUM-TERM, LINKED TO ECONOMIC PROGRAMS WORKED OUT WITH THE IMF, NOT ENCUMBERING PORTUGUESE RESERVES AND NOT TIED TO PROJECTS OR EXPORTS. THE FORMS OF LOANS INDICATED THUS FAR INCLUDE APPROPRIATED FUNDS, CENTRAL BANK CREDITS, AND GOVERNMENT GUARANTEED COMMERCIAL BANK LOANS. INTEREST RATES WILL GENERALLY BE NON-CONCESSIONAL.

6. FOR USE BY THE HAGUE ONLY. ONLY THREE COUNTRIES - CANADA, FRANCE AND JAPAN - ARE HAVING DIFFICULTY FINDING A MECHANISM TO PROVIDE UNTIED CREDITS. IN THE JAPANESE CASE AT LEAST \$50 MILLION OF THE TOTAL CONTRIBUTION WILL BE UNTIED, REPEAT UNTIED. CANADA HAS INDICATED THAT IF IT CANNOT FIND AN UNTIED MECHANISM IT WOULD PROVIDE ITS CONTRIBUTION ON A GRANT BASIS. CONTRIBUTIONS OF UNTIED LOANS WILL TOTAL AT LEAST \$700 MILLION, BY FAR THE BULK OF THE LENDING ARRANGEMENT. WE HOPE THE NETHERLANDS WILL REMAIN WITH THE LARGE MAJORITY - AND NOT JOIN THE FEW

POSSIBLE EXCEPTIONS - BY PROVIDING UNTIED LOANS. END
FOR USE BY THE HAGUE ONLY.

7. INTERIM PERIOD FINANCE. PORTUGAL'S BALANCE OF PAYMENTS
NEEDS ARE URGENT AND WE HAVE ASKED PARTICIPANTS TO MOVE
RAPIDLY TO SIGN LOAN AGREEMENTS SO THAT SOME MEDIUM-TERM
ASSISTANCE MAY BE AVAILABLE IN THE THIRD QUARTER OF THIS
YEAR. BECAUSE THE U.S. LOAN COMES FROM FY 1978 APPROPRI-
ATIONS WE CANNOT DISBURSE BEFORE OCTOBER 1. THE U.S. IS,
HOWEVER, PROVIDING \$67.5 MILLION IN ADDITIONAL COMMODITY
ASSISTANCE WHICH WE EXPECT WILL BE DISBURSED DURING THE
THIRD QUARTER. THE PORTUGUESE ARE ALSO MAKING SUBSTANTIAL
USE OF THE \$300 MILLION U.S. EXCHANGE STABILIZATION FUND
AGREEMENT DURING THIS PERIOD. CHRISTOPHER
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